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INTRODUCTION

The Office of Internal Audit performed an audit of Lake/Mason County FIA for the period April 1, 2001 through June 28, 2002. The objective of our audit was to determine if internal controls in place at the local offices provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Lake/Mason County FIA had 55 full time equated positions (FTE's) at the time of our review. Lake/Mason County FIA provided assistance to an average 3,514 recipients per month in FY 2001, with total assistance payments of \$4,251,667 for the fiscal year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Lake/Mason County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts

Cash Disbursements

General Ledger

Modified Accrual Basis Balance Sheet

Safe and Controlled Documents

State Car Usage

State Emergency Relief (SER)

Direct Support Services

Client Processing

CIS/ASSIST

IRS Information Security

Payroll and Timekeeping

Procurement Card

Contracting

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Lake/Mason County FIA internal controls are generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. However, Client Information System and ASSIST system access need improvement to strengthen controls. The customized CIS status for Mason County staff allowing them to access Internal Revenue Service Data in finding # 10, page 9, was changed immediately when brought to Management's attention.

LOCAL OFFICE RESPONSE

The management of Lake/Mason County FIA did not respond to our draft report.

LAKE/MASON COUNTY FIA

COMMON RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS

The following are areas where we have identified a common control weakness at Lake/Mason County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

CASH RECEIPTS

Cash Receipts Mail Opening

1. Lake/Mason County FIA did not establish adequate control over negotiable instruments received in the mail. One staff (the Office Supervisor in Mason County and Administrative Support staff in Lake County) wearing protective clothing and mask would open the mail in an office with floor to ceiling walls.

Internal Control Criteria dated June 2002; page 34, and Accounting Manual 431, page 1, requires two staff to open the mail.

WE RECOMMEND Lake/Mason County FIA have two staff open the mail as required by the Internal Control Criteria and Accounting Manual 431.

CIS/ASSIST

Client Information System (CIS) Status Codes

2. Lake/Mason County FIA had assigned Client Information System (CIS) status codes that were inconsistent with staff job responsibilities.

In Lake and Mason Counties, reception and registration support staff had been assigned “FLM” or “CRS” status on CIS and also had ASSIST job type 360 (Registration Support Clerk).

Internal Control criteria dated June 2002 established by the Family Independence Agency in Addendum A, page 3 and page 65 states that staff with ASSIST registration should not have CIS file maintenance capability.

Assigning CIS status codes to allow staff access to transactions that are inconsistent with their job functions or responsibility increases the risk of unauthorized transactions being processed that would not be detected in a reasonable period of time.

WE RECOMMEND Lake/Mason County FIA change the Client Information System (CIS) status codes of the reception and Registration Support staff to “INQ” or “IRG”

status on CIS, customize the status of the staff, or have independent staff review all transactions for the staff that appear on the Transaction Control Report (MA010).

ASSIST Enrollment Profile/Security Agreements

3. Lake/Mason County FIA did not have current and accurate ASSIST Enrollment Profiles (FIA3720) and Security Agreements (FIA3721) on file for staff who access ASSIST.

ASSIST Security Agreements (FIA3721) could not be located for five Mason County staff. One Lake County staff had an ASSIST job type reported on the ASSIST Monthly User Listing (VB9554) that was different than that entered on the ASSIST Enrollment Profile (FIA3720).

CIS Security Policy L-Letter L-97-063 requires an FIA3720 and FIA3721 to be prepared for all new users of ASSIST and for all current operators each time an enrollment change is proposed.

WE RECOMMEND Lake/Mason County FIA obtain signed ASSIST Security Agreements (FIA3721) for the Mason County staff and determine the correct status for the Lake County staff.

Incompatible ASSIST Job Types

4. Lake/Mason County FIA had assigned ASSIST job types that were incompatible. The FIMs in both counties and the Program Manager in Mason County had been assigned ASSIST job types 280 (FIM) and 370 (Registration Support Supervisor).

Internal Control Criteria dated June 2002, page 13, states that no one person should have 280 and 370 ASSIST job types.

Assigning staff ASSIST job types that allows staff to register and open cases on ASSIST does not allow for the proper separation of duties.

WE RECOMMEND Lake/Mason County delete the ASSIST 370 (Registration Support Supervisor) ASSIST job types from the FIMs and Program Manager ASSIST job profiles.

WE also RECOMMEND Mason County delete the ASSIST 280 (FIM) job type from the Program Managers ASSIST job profile.

Payroll and Timekeeping

Payroll Reconciliation

5. Lake/Mason County FIA did not reconcile the Time and Attendance Summary Report (HR332A) with the Employee Time and Attendance Report (FIA4299). Internal Control Criteria dated June 2002, page 57, states that the completed payroll is to be reconciled with the individual employee FIA4299s.

WE RECOMMEND Lake/Mason County FIA reconcile the Time and Attendance Summary Report (HR332A) with the Individual Employee Time and Attendance Report (FIA4299).

MASON COUNTY FIA

FINDINGS AND RECOMMENDATIONS

The following are areas where we found that Mason County FIA had a control weakness or was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

Cash Receipts

Preparation of Mail Logs

6. Mason County FIA did not follow established procedures when recording mail receipts on the mail logs. Returned local office checks and State warrants were recorded on the same mail logs with receipts that were to be deposited in the Social Welfare Fund.

Accounting Manual Item 431 EBT, page 1 requires the completion of three separate lists. One list is for all Department of Treasury warrants sent or returned to the local office for disposition, including locally issued checks returned to the local office. The second list is for EBT cards received at the local office and, the third list is for all other funds received for deposit in the Social Welfare Fund, Child Care Fund or Trust and Agency Fund.

WE RECOMMEND Mason County FIA prepare separate mail lists for warrants and returned local office checks as required by Accounting Manual Item 431 EBT.

Disposition of Returned Local Office Checks

7. Mason County FIA did not control the disposition of local office checks returned to the office. The disposition of the checks was based on verbal instructions or E-mail from the worker. Hard copies of the E-mails were not retained on file.

Documenting the disposition of the checks with written instructions from the worker strengthens controls over the returned checks.

WE RECOMMEND Mason County FIA require the workers to notify the fiscal unit in writing of the disposition of returned local office checks

See also Common Recommendation #1, page 2-3.

Cash Disbursements

Retention and Filing of Void Overflow Checks

8. Mason County FIA did not follow established procedures for retaining and filing void checks.

Checks automatically voided by LASR because of an “overflow” of the detail entered in the description area of the check on to the next check are mailed to the vendor with the negotiable check.

Accounting Manual Item 405, page 6, requires voided checks to be filed with the canceled checks.

Filing voided checks with the canceled checks helps to ensure that all checks are properly accounted for.

WE RECOMMEND Mason County FIA file the voided “overflow” checks with the cancelled checks in the month in which they were voided.

Voiding Director's Signature on Check Signing Errors

9. Mason County FIA did not void the Director's signature on blank sheets of paper that were imprinted with the Director's signature.

In March 2002 there were six instances when blank sheets of paper were inadvertently processed during check signing that had the Director's signature imprinted. The blank sheets were filed with the Sign-O-Meter Record to document the error and were secured in the vault. However the Director's signature was not invalidated. A void legend should be placed through the signature to prevent any misuse.

WE RECOMMEND Mason County place a void legend over the Director's signature whenever there are check signing errors on blank sheets of paper.

General Ledger

No findings in this area.

Modified Accrual Basis Balance Sheet

No findings in this area.

Safe and Controlled Documents

No findings in this area.

State Car Usage

No findings in this area.

State Emergency Relief

No findings in this area.

Direct Support Services

No findings in this area.

Client Processing

No findings in this area.

CIS/ASSIST

See Common Recommendations #2-4, page 3-5.

IRS Information Security

Access to Internal Revenue Service Data

10. Mason County FIA did not maintain adequate security over Internal Revenue Service (IRS) Data. Three staff had their Client Information System (CIS) status customized that allowed them to access Internal Revenue Data.

Access to Internal Revenue Service (IRS) Data is to be limited to the Designated Staff Person (DSP) and backup responsible for safeguarding the IRS information.

WE RECOMMEND Mason County FIA remove the customized status that allows the three staff to access confidential Internal Revenue Service (IRS) Data.

Payroll and Timekeeping

See Common Recommendation #5, page 5.

Procurement Card

No findings in this area.

Contracting

No findings in this area.

LAKE COUNTY FIA

FINDINGS AND RECOMMENDATIONS

The following are areas where we found that Lake County FIA had a control weakness or was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters. The scope of our review at Lake County FIA was limited to the areas listed.

Cash Receipts

See Common Recommendation #1, page 2-3.

Cash Disbursements

Emergency Check Signing Security

11. Lake County FIA did not establish adequate security over the emergency check signing process.

Lake County FIA issues an average of seven emergency checks per month. The emergency checks are signed using an old check signer (non LASR Certex check signer). The meter readings on this machine do not advance when a check is signed and the signature plate is worn and barely legible. The check-signing machine is located in the office where it is accessible by all staff and the key to the check signer is stored in an unlocked drawer where it is also accessible by all staff.

Failure to secure the check signing machine and key increases the risk of inappropriate use. With the broken meter reading there is no way to determine if the machine has been used to sign a check or some other document with the Director's facsimile signature.

WE RECOMMEND Lake County FIA replace the check-signing machine.

WE also RECOMMEND Lake County FIA secure the key to the check signing machine so that only authorized staff have access to the key.

Safe and Controlled Documents

Controlled Document Physical Inventory

12. Lake County FIA did not properly control the supply of controlled documents.

Administrative support staff responsible for the use and inventory control of the controlled documents also performed the month end physical inventory. The physical inventory would be sent to Mason County staff to perform the monthly inventory reconciliation.

In order to ensure accuracy of the inventory reconciliation, Lake County staff independent of daily use and inventory control should perform the month end physical inventory of the controlled documents.

WE RECOMMEND Lake County FIA have staff independent of the use of the controlled documents perform the monthly controlled document physical inventory.

Excessive Electronic Benefits Transaction (EBT) Card Inventory

13. Lake County FIA is maintaining an excessive inventory of Electronic Benefits Transaction (EBT) Cards. As of June 6, 2002 Lake County had 485 EBT cards in inventory. Eleven EBT cards have been issued since April 1, 2001 and there have been no EBT cards issued since December 20, 2001.

Mason County FIA staff maintains primary inventory control and reconciliation of all controlled documents. The Single Business Office for both counties is located in Mason County.

WE RECOMMEND Lake County FIA transfer the bulk of the Electronics Benefit Transaction (EBT) Cards to Mason County and maintain a working supply in Lake County.

State Car Usage

Unknown Miles on the Official Daily Travel Log (MD10)

14. Lake County FIA staff did not complete the Official Daily Travel Log (MD10) as required by FIA policy. A review of the Official Daily Travel Logs for April 2002 disclosed the log for one vehicle had an entry for sixty-eight unknown miles.

Administrative Handbook-U Item 811, page 11 states there should be an entry each day of use and one for use within the same with a daily total and monthly total.

Failure to record daily mileage, destination and reason for travel on the Official Daily Travel Log increases the risk that the vehicle is not being used for official FIA business.

WE RECOMMEND the staff at Lake County FIA complete the Official Daily Travel Log (MD10) as required by Administrative Handbook-U, Item 811.

State Emergency Relief

No findings in this area.

Direct Support Services

No findings in this area.

Client Processing

No findings in this area.

CIS/ASSIST

See Common Recommendation #2-4, page 3-5.

IRS Information Security

No findings in this area.

Payroll and Timekeeping

See Common Recommendation #5, page 5.

Procurement Card

No findings in this area.

Contracting

No findings in this area.